



**Office of Audit Services**  
P.O. Box 942701  
Sacramento, CA 94229-2701  
Telecommunications Device for the Deaf - (916) 795-3240  
(916) 795-0900, FAX (916) 795-4023

September 16, 2008

## AGENDA ITEM 4

### TO: MEMBERS OF THE FINANCE COMMITTEE

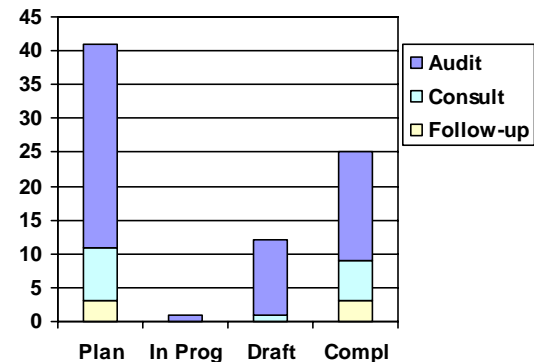
- I. **SUBJECT:** Quarterly and Year-End Status Report
- II. **PROGRAM:** Audit Services
- III. **RECOMMENDATION:** Information only
- IV. **SUMMARY:** Quarterly and Year-End Status Report

In accordance with the Finance Committee's Audit Resolution Policy and Procedures, the Office of Audit Services presents its Quarterly and Year-End Status Report of audit activity. The following provides the status of audits and special projects as of June 30, 2008.

#### 1. Status of projects and activities in the Fiscal Year 2007 / 2008 Board approved annual Audit Plan

Internal Audits – Internal audit projects and consulting assignments focus on compliance, and the effectiveness and efficiency of CalPERS operations, systems, policies, and procedures. Detail on these projects is provided on Attachment 1A.

2007/08 Board Approved Audit Plan	Plan	In Progress	Draft Issued	Complete
Audit Projects	30 <sup>A</sup>	1	11 <sup>B</sup>	16 <sup>B</sup>
Consulting Projects	8 <sup>A</sup>	0	1	6
Audit Follow-up	3	0	0	3



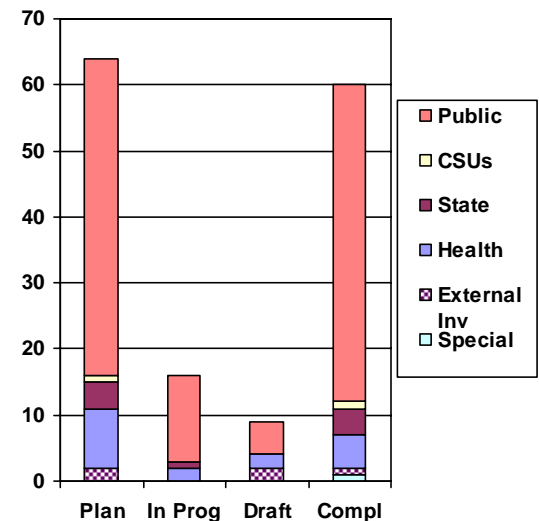
<sup>A</sup> – Includes 5 deferred audits and 1 deferred consulting project as shown in Attachment 1A

<sup>B</sup> – Includes audits started in the prior fiscal year as shown in Attachment 1A

Members of the Finance Committee  
September 16, 2008

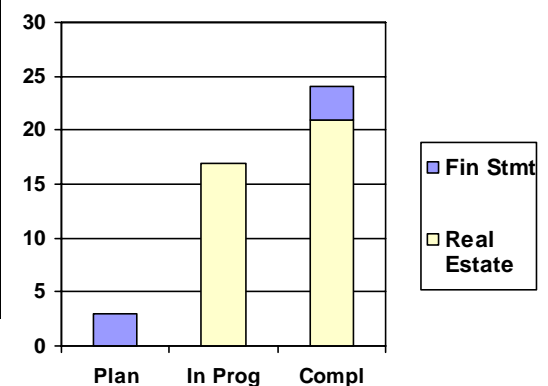
- B. Field Audits and Reviews– Field audits and reviews include compliance reviews of employer entities belonging to the System, audits of health maintenance organizations contracting with the System, compliance audits of health care third-party administrators, and audits of external providers of investment-related services. Detail on these projects is provided on Attachment 1B.

2007/08 Board Approved Audit Plan	Plan	In Progress	Draft Issued	Complete
Public Agency Reviews	48	13 <sup>A</sup>	5	48 <sup>A</sup>
California State Universities Reviews	1	0	0	1
State Agency Reviews	4	1	0	4 <sup>A</sup>
Health Plan Audits	9	2	2	5 <sup>A</sup>
External Investment Managers	2	0	2	1 <sup>A</sup>
Special PA Projects	As requested	0	0	1



- C. Contract Audits – Contract audits include audit work performed by external auditors. The number of real estate and legal fee audits is determined over the course of the fiscal year. Detail on these projects is provided on Attachment 1C.

2007/08 Board Approved Contract Auditor	Plan	In Progress	Complete
Financial Statement Audits	3	0	3
Real Estate Audits	As requested	17	21

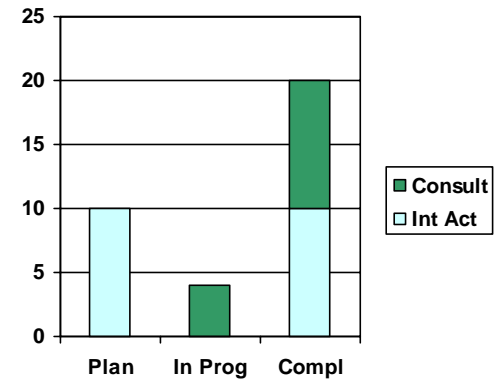


<sup>A</sup> – Includes audits started in prior fiscal year as shown in Attachment 1B

Members of the Finance Committee  
September 16, 2008

D. Management Consulting Projects - In addition to the specific projects in the approved Audit Plan, during the year the Office of Audit Services responds to subsequent requests from the Board of Administration, Executive Management, and program divisions for audit and consulting projects. The approved Audit Plan includes an allocation of hours for these projects. Detail on these projects is provided in Attachment 1D.

Management Consulting Projects	Plan	In Progress	Complete
Management Consulting Projects	As requested	4	10
Office of Audit Services Internal Activities	10	0	10



## 2. Findings Trends - Public Agency Reviews

During Fiscal Year 2007/08, the most frequently reported issues in public agency reviews were incorrect reporting of compensation, payroll reporting errors, not properly enrolling members and their dependents for health benefits, and not properly maintaining ACES security documents. Following is a summary of the findings included in the audit reports issued during Fiscal Year 2007/08, with comparative amounts from the prior fiscal year.

Type of Finding –	FY 2007/08		FY 2006/07	
	Agencies	Findings	Agencies	Findings
Compensation	38	77	43	115
Payroll reporting errors	39	68	35	65
Health eligibility	30	48	24	34
ACES security documents	28	46	27	37
Enrollment	19	29	31	47
Retirement contributions/payroll information not reported timely	12	20	24	43
Unused sick leave	15	15	17	17
Pay rate reporting errors	10	11	13	13
Retired annuitants	6	7	10	11
Independent contractor	2	2	3	3
Industrial disability retirement	2	2	6	6
Health payment not timely	1	1	6	6
Alternative health plan	1	1	2	2
Member misclassification	1	1	1	1
Publicly available salary schedule not available	0	0	1	1
Total	204	328	243	401

Members of the Finance Committee  
September 16, 2008

## 2. (continued) Findings Trends - Internal Audits

The following table illustrates Internal Audit findings by division for the past three fiscal years. For each Fiscal Year shown the findings designated as *In Progress* are as of June 30 of each fiscal year. The amounts shown under *Complete* findings are the numbers of findings completed during the entire fiscal year.

Division	FY 07/08		FY 06/07		FY 05/06	
	In Progress	Complete	In Progress	Complete	In Progress	Complete
Benefit Services	0	3	3	0	0	13
Employer Services	1	2	0	1	1	9
Fiscal Services	4	24	3	14	17	30
Health Benefit Branch	14	19	33	18	29	16
Human Resources	1	1	0	12	12	5
Information Security Office	50	6	48	11	15	5
Information Technology Services	42	6	22	34	24	18
Investment Office	4	1	1	8	8	27
Legal Office	0	0	0	3	3	1
Member Services	0	1	1	2	2	6
Operations Support Services	14	12	6	15	14	32
Totals	130	75	117	118	125	162

Detail on In Progress findings by division as of June 30, 2008 is included as Attachment 2A of this agenda item.

Members of the Finance Committee  
September 16, 2008

### HIPAA-Related Findings

At the request of the Finance Committee, we have included a special update on the resolution status of findings related to Health Insurance Portability and Accountability Act (HIPAA) reviews conducted by Office of Audit Services. The status of the remaining findings we originally reported in August 2004 and October 2006 is found in Attachment 2B of this agenda item.

### Internal Audits

During Fiscal Year 2007/08, we completed 16 internal audit projects and issued another 11 drafts which were awaiting management's response as of June 30, 2008. We reported on a wide variety of issues related to improvements to the internal control structure, particularly with emphasis on accounting reconciliations, receivables, information systems and security, operational recovery planning, and configuration management.

### Health Plan Audits

We completed five audits of health plan contract compliance and claims during the fiscal year with another two issued in draft awaiting response as of June 30, 2008. The main issues identified in these audits include ensuring eligibility of enrollees, response times for appeals and determinations; ensuring training for staff and maintenance of training records, obtaining appropriate accreditations, correct reporting and record-keeping regarding contractually-required performance measures, and issues with claims processing.

### Financial Statement Audits

The external financial statement auditor, Macias Gini & O'Connell, LLP, presented a management letter summarizing all its findings and recommendations related to the 2007 financial statement audit at the December 2007 Finance Committee meeting. Macias Gini & O'Connell will review these findings for satisfactory resolution during its upcoming annual financial statement audit.

### Real Estate Audits

The external real estate audit firms completed 21 audits during Fiscal Year 2007/08. The most frequently reported issues are related to property managers' oversight, unallowable costs, various fees calculations, and record keeping.

### 3. Findings / issues resulting from auditing work

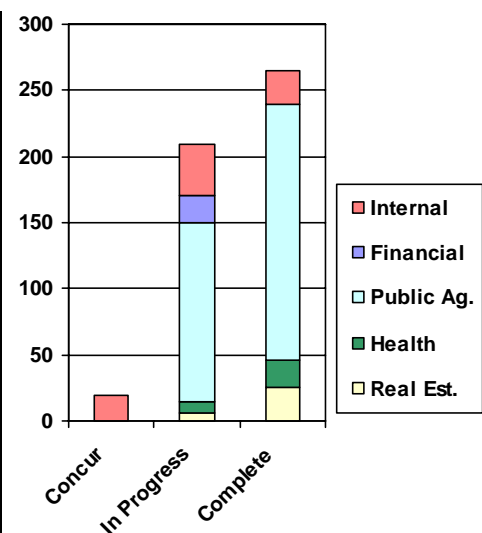
Consistent with the Audit Resolution Policy and Procedures, the Office of Audit Services continued to work with management to resolve all outstanding issues. Management is taking satisfactory action toward this end.

A status of *Concur* indicates management has agreed with the finding and plans corrective action. *In Progress* indicates management is taking corrective action.

*Complete* status indicates satisfactory resolution of the finding. *Unresolved* status indicates management does not agree with the finding or recommendation or has not taken adequate action; in such a case, the finding is referred to executive management for resolution.

A. Findings / issues resulting from current year projects. Detail on all current fiscal year findings is included in Attachment 3A of this agenda item.

Activity	Concur	In Progress	Complete	Unresolved
Internal Audits	19	39	26	0
Financial Audits	0	20	0	0
Public Agency Reviews	0	135	193	0
Health Plan	0	9	20	0
Real Estate Audits	0	6	26	0
Total	19	209	265	0



B. Findings / issues resulting from prior years' projects. Detail on all these findings is provided in Attachment 3B of this agenda item.

Activity	Concur	In Progress	Complete	Unresolved
Internal Audits	0	70	16	0
Public Agency Reviews	0	70	79	0
Health Plan Audits	0	1	20	0
Real Estate Audits	0	1	4	0
Total	0	142	119	0



#### 4. Overview of Audit Services staff credentials and proficiencies

- a) Education and Experience: Audit Services staff exhibit a high level of educational achievement, complemented with many years of CalPERS and total audit experience, as seen in Tables 1 through 3 below.

Table 1 – Education

Education	Degrees
Associate of Arts	2
Bachelor of Arts or Science	25
Masters	4
Other Advanced Degree	2

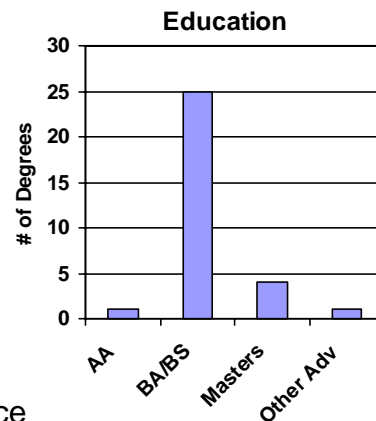


Table 2 – Office of Audit Services Audit Experience

Office of Audit Services Experience (Years)	Staff
Up to Two	10
Three to Five	11
Six to Ten	9
More than 10	3

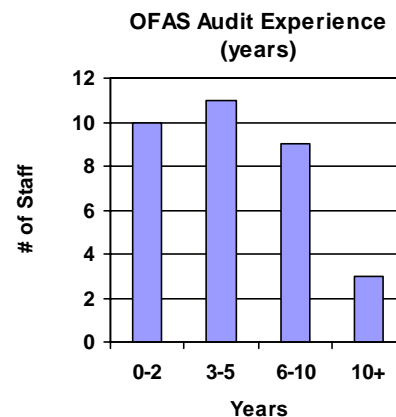
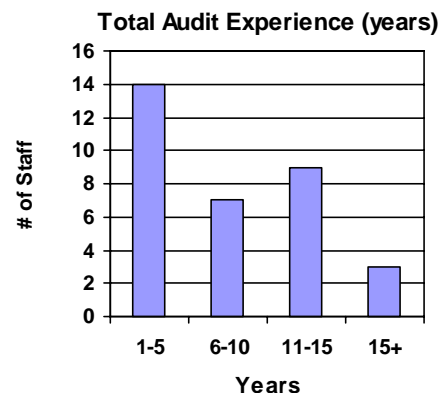


Table 3 – Total Years of Audit Experience

Total Audit Experience (Years)	Staff
Up to Five	14
Six to Ten	7
11 to 15	9
More than 15	3



Members of the Finance Committee  
September 16, 2008

b) Titles and Credentials: Audit Services staff, comprising the job titles shown below, hold a wide variety of professional certifications and possess proficiency in many areas:

Title	No. of Staff	Certification	No. of Staff	Audit Proficiency	No. of Staff
Chief Auditor	1	Certified Internal Auditor	11	Internal Controls	16
Assistant. Division Chief	1	Certified Public Accountant	9	Financial Audits	12
Supervising Auditor	2	Certified Information Systems Auditor	5	Public Agency Compliance	15
Senior Program Evaluator (IT)	1	Certified Governmental Financial Manager	4	Risk Assessment	15
Senior Program Evaluator	4	Certified Investments and Derivatives Auditor	2	Health Programs	9
IT Auditors	2	Certified Management Accountant	1	IT Security	5
Public Agency Auditors	14	Other Professional Certifications	3	IT Systems	6
Internal Auditors	8	Total Certifications	35	Benefit Administration	5
Vacant Positions	8			Investments	6
Total	41			Real Estate	5
				Project Management	1

## 5. Confirmation of Independence of Organizational Independence

Proposed changes to the *International Standards for the Professional Practice of Internal Auditing* will require the Chief Auditor to confirm to the Board, at least annually, the organizational independence of the internal audit activity. We anticipate the proposed standards will soon become effective, and so are implementing prior to its being required to confirm our organizational independence.

The Office of Audit Services is placed organizationally to ensure independence. The Chief Auditor reports administratively to the General Counsel, and has direct reporting responsibility to the Chief Executive Officer and the Finance Committee. The Office of Audit Services Board-Approved Charter and our office's adherence to the *International Standards for the Professional Practice of Internal Auditing* also ensure the independence of the audit activity.



Members of the Finance Committee  
September 16, 2008

**V. STRATEGIC PLAN:**

This item is not a specific product of the strategic plan, but is required by the Finance Committee's Audit Resolution Policy and Procedures and the Office of Audit Services Charter.

**VI. RISKS/COST:**

This is an information item and does not result in any risks/costs. Staff is available to answer any questions that the Finance Committee may have.

---

MARGARET JUNKER  
Assistant Division Chief  
Office of Audit Services

---

LARRY JENSEN, Chief  
Office of Audit Services

---

PETER H. MIXON  
General Counsel